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## Market Brief

# Japan : Food Processing Sector - New Age Beverages

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Tokyo[JA1], JA

# NEW AGE BEVERAGES

## OVERALL TRENDS

Before the creation of the New Age Beverage category in 1965, beverages were defined simply as carbonated drinks, fruit drinks and others. Now the category includes sports and health drinks, canned and bottled coffees and teas and mineral water.

New Age Beverages have driven growth for the entire soft drink market in recent years. While the rest of the market has stagnated, production of New Age Beverages has grown more than 40 percent in the last five years, from 5.5 kl in 1992 to over 8 million kl in 1997. This growth has come despite the current recession. The popularity of New Age Beverages reflects the growing health consciousness of Japanese consumers.

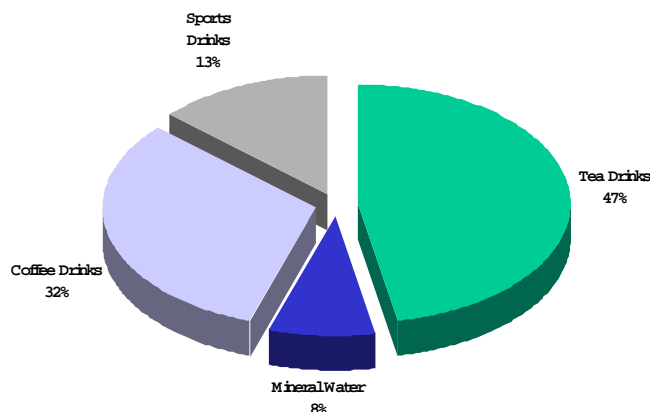
### Five Major Players in New Age Beverage Market:

1. COCA COLA CORP.
2. SUNTORY
3. ITO-EN
4. OTSUKA
5. KIRIN

Consumers are turning to healthy, sugarless drinks at the expense of fruit juices and carbonated soft drinks that once dominated the market. Production of New Age Beverages in Japan remains dominated by large companies due to their control of distribution channels, especially vending machines. Seventy percent of all canned drinks in Japan are sold through vending machines. Twenty companies control 80 percent of the market in Japan, and Coca Cola alone controls 35 percent of the market.

In 1996 the soft drink industry ended its self-imposed restriction on small size (500 ml)

**Chart 1. Japanese Production of New Age Beverages (1997)**



PET bottles. Up until this time the industry had voluntarily agreed not to market 500 ml PET bottles due to government concerns about recycling. However, due to the popularity of imported mineral waters in 500 ml bottles, which were introduced in 1994, the industry decided to end this self-regulation and began marketing 500 ml PETs.

There have been significant changes in the pricing of soft drinks and New Age Beverages in the last few years. From 1981 until 1992 canned beverages were priced at 100 yen per can. In April of 1992 the price was increased to 110 yen. In 1998 the price of most canned beverages increased to 120 yen, in part to reflect an increase in the consumption tax from 3 to 5 percent. This increase in price has not had a significant impact on sales.

Recent regulatory changes affecting the soft drink sector include changes in labeling laws to show the "consume by" date rather than production date and rules to standardize nutritional information labeling. The Container Recycling Law, which came into effect in 1997, requires producers to establish

recycling procedures for cans and bottles.

## TEA DRINKS

Sales of canned and bottled tea have risen dramatically in the last ten years making ready-to-drink tea the most popular soft drink in Japan. In 1997 production of tea drinks was 75 percent higher than in 1993 and 10 percent greater than in 1996. In 1994 tea drinks surpassed canned coffee as Japan's most popular soft drink. In 1995 tea drinks surpassed sales of all carbonated beverages combined. This rapid growth has been fueled by the demand for healthy, sugarless and light soft drinks. Besides canned tea and 500 ml PET bottles, two liter bottles of tea drinks are popular for home use and by restaurants.

Among tea drinks, oolong tea is the most popular, followed by straight tea (*kocha*), blended tea, green tea and barley tea (*mugicha*). Blended teas, such as Asahi's "Juroku" brand and Coca Cola's "Sokenbicha" have recently become popular, with sales growing by over 50 percent in the last two years. Recently beverage makers have begun marketing English style straight teas which emphasize no added sugar, such as Asahi's "Teao" brand. Some teas flavored with fruit or herbs have entered the market recently and are popular among young women. Examples of flavored teas include "Jasmine Tea" and "Apple Tea" by Ito-En and Kirin's "Lemon Tea" and "Herbes," which contains chamomile, lemon grass lavender and rose hips. Sweet, heavily flavored iced teas from the United States, such as "Snapple," have not been popular among Japanese consumers who prefer a more straight tea taste, according to industry experts.

## MINERAL WATER

After ten years of solid growth, the mineral water market suffered a serious set back in 1995 when impurities were found in imports

of mineral water from Australia and New Zealand. Health concerns caused a decrease in imported water from 198,713 kl in 1995 to 144,721 kl in 1996. While domestic production increased from 452,200 kl in 1995 to 485,900 kl in 1996, the entire market decreased from 650,913 kl to 630,621 kl during the same period.

By 1997 sales of mineral water had recovered from the drop caused by the contamination problem. Domestic production has increased and imports of mineral water have surpassed their 1995 levels. However, the weak yen rate has begun to slow imports of mineral water. Japan's four largest suppliers of mineral water are France, Belgium, the United States and Italy. The "Crystal Geyser" brand dominates imports from the United States.

The main reasons for the growth in this sector include: 1) the decrease in tap water quality, especially in metropolitan areas such as Tokyo and Osaka; 2) consumer trends toward healthy non-sugared drinks; 3) consumers becoming more conscious of food safety and taste; 4) young people consider it fashionable to drink mineral water; and 5) Japanese consumers have become accustomed to using bottled water after traveling or living abroad. Despite the recent growth in consumption of mineral water in Japan, it remains only 1/26th of per capita consumption in France, 1/8th of per capita consumption in the United States and less than 1/7th of per capita consumption in other Asian areas such as Hong Kong. Therefore, this market is considered to have further potential to grow.

One new popular product in Japan is "Near Water," mineral water with a slight fruit taste such as orange, cherry, blueberry or peach. "Near Waters" often contain added nutrients such as vitamins, royal jelly or caffeine. Some popular "Near Water" brands include "Sapli," (containing fiber, calcium and vitamins C, B1, B6 and B12) by Kirin, "Eau-Plus" (containing

**Table 1. Production of New Age Beverages**

	1992	1993	1994	1995	1996	1997
TeaDrinks	2,080	2,170	2,799	3,040	3,449	3,794
Mineral Water	300	346	412	452	485	646
Coffee Drinks	2,375	2,400	2,415	2,468	2,483	2,568
Sports Drinks	843	785	935	990	993	1,068
Total	5,598	5,701	6,561	6,950	7,410	8,076
Production in thousands of kiloliters						

Source: Japan Soft Drink Association

lemon, chamomile, gaurana, aloe and vitamin C) by Asahi, “Vitamin Water” (containing calcium, and vitamins B6, B12 and C) by Suntory and Japan Tobacco’s “Natural Peach Water” containing 10 percent fruit juice.

### CANNED COFFEE

Canned coffee is a unique feature of Japanese society and is consistently one of Japan’s most popular soft drinks. Seventy percent of all canned coffee is sold from vending machines, where it can be purchased hot or cold. While consumption declined somewhat in 1992 due to increased prices, the market has been growing steadily since that time. From 1987 to 1997 sales of canned coffee have almost doubled. Beginning in 1992 competition between producers of canned coffee has become intense. Canned coffee producers have aggressively advertised their products and emphasize their authentic coffee taste and distinctive production methods.

In the past, canned coffee used either instant coffee or coffee extract. However, in 1994 makers switched to using regular coffee beans emphasizing the variety of beans they use in order to attract customers. Canned coffee uses approximately 22 percent of the coffee beans consumed in Japan. In the past canned coffee was sold mainly in 250 ml cans. Recently, smaller 160-200 ml cans, which use a greater percentage of real coffee beans, have become the norm. Canned *café au lait* and *cappuccino*

have become popular among women and the market for large 900 ml PET bottles for home and restaurant consumption is also growing.

### SPORTS DRINKS

Domestic production of sports drinks in Japan grew by 36 percent between 1993 and 1997, after decreases in 1991 and 1992. Production grew by 7.5 percent from 1996 to 1997. Two brands, “Pocari Sweat” by Otsuka and “Aquarius” by Coca Cola, dominate the market with a combined 90 percent share of the total sports drink market. These are light, semi-sweet isotonic drinks containing ingredients such as citric acids, honey, kelp extract, fructose and vitamin supplements. These two companies also dominate the market for powdered Sports Drinks. “Gatorade,” distributed by Snow Brand in Japan, has failed to capture significant market share in Japan reportedly due to a narrow marketing strategy targeting athletes.

Recently, producers have begun marketing health drinks with added nutritional supplements, such as catechin, which is said to fight cancer, or amino acids to burn fat. These drinks are targeted towards consumers who enjoy an active lifestyle, rather than serious athletes. Products in this category include, “Catechin Sports” by Ito-en, “Energen” by Otsuka, and “Xavas” by Meiji Seika.

One of the biggest changes in the soft drink market in Japan is the popularity of new jelly style health drinks. When introduced in 1995, these drinks were meant to target athletes and were distributed mainly through health clubs. Today, jelly drinks are sold mainly through convenience stores and supermarkets and target all sectors of the population. The products are sold in an innovative soft plastic pack with an affixed straw and are drunk by squeezing the contents into your mouth. As more Japanese people skip meals, this product has become popular among people looking for more convenient, fast and healthy ways to eat. Morinaga, in partnership with the U.S. sports brand Weider, was the first to enter this market with its line of “Weider In” products. This line of products includes “Energy In,” “Vitamin In,” “Protein In” and “Fiber In.” In its first three years of sales of “Weider In Jelly” sales increased by 80 percent.

Due to the success of “Weider In Jelly,” four other companies have entered this market, Pokka Corp., Meiji Seika Corp., Snow Brand Foods Co. and Imuraya Confectionery. The innovative packaging has become very popular because it is easy to carry, can be resealed and reduces garbage. Many health drink producers are adopting this packaging.

## IMPORT POTENTIAL

With the exception of mineral water, imports of final products in the New Age Beverage sector are generally too expensive to be cost effective and often do not meet Japanese consumer preferences. However, many ingredients have import potential.

The large market for canned and bottled coffees and teas offers a potential to importers of roasted coffee and various types of tea. New markets such as flavored tea and “Near Water” and various sports drinks offer opportunities for importers of nutritional supplements, herbs and fruit flavorings.

### List of Ingredients:

#### COFFEE:

Green and roasted coffee beans.

#### TEA DRINKS:

Tea: black tea, green tea, oolong tea.

Herbs: chamomile, mint, lemon grass, lavender, jasmine, rose hips.

Fruit juices and extracts: lemon, apple, orange, raspberry.

#### NEAR WATER:

Fruit juices and extracts: lemon, peach, blueberry, cherry, muscat.

Nutritional supplements: vitamins C, B1, B6 and B12, calcium, aloe, garuna, garcina, catechin, royal jelly.

#### SPORTS DRINKS:

Fruit juices and extracts: grapefruit, muscat, lemon, apple.

Nutritional supplements: vitamins C, B1, B6, B12, E, calcium, royal jelly, aloe, beta-carotene, wheat peptides.

Examples of popular additives to “Near Waters” and sports drinks include royal jelly aloe, gaurana, various vitamins, calcium, dietary fiber and fruit flavorings including, peach, orange, cherry, blueberry, apple and muscat. Flavored tea ingredients include herbs, such as jasmine, chamomile, rose-hips, lavender and lemon grass as well as fruit flavoring, including apple and lemon.

Table 2. Imports of Main Ingredients

	Quantity (metric tons)				Value (Yen millions)				Tariff (%)**
	1994	1995	1996	1997	1994	1995	1996	1997	
Roasted Coffee	2,333	2,075	3,270	1,768	1,717	2,072	3,390	2,601	14.7
Black Tea	1,567	2,747	2,619	2,261	3,231	4,314	5,435	4,735	14.7
Mineral Water*	147	199	145	149	8,321	10,838	9,199	9,530	11.7-16.4
Fruit Juice*	220	233	218	NA	41,777	43,748	53,901	NA	8.0-32.4
Corn for Corn Starch	3,250	3,397	3,350	3,352	48,434	45,678	70,228	64,134	Free

\*1000kl \*\*Tariff rate is WTO rate

Source: Ministry of Finance Trade Statistics

This report is in the series as follows:

- JA9044 Food Processing Sector - Overview
- JA9045 Food Processing Sector - Dairy Products
- JA9046 Food Processing Sector - Frozen Food
- JA9047 Food Processing Sector - Health and Functional Foods
- JA9048 Food Processing Sector - New Age Beverages
- JA9049 Food Processing Sector - Retort Pouch Food
- JA9050 Food Processing Sector - Snack Foods
- JA9051 Food Processing Sector - Western Bakery Products
- JA9052 Food Processing Sector - Western Confectionery Products